



SOCIAL ENTREPRENEURSHIP AS A NEW PARADIGM:  
RETHINKING DEVELOPMENT INTERVENTION IDEOLOGIES

by

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A THESIS

Presented to the Department of International Studies  
and the Graduate School of the University of Oregon  
in partial fulfillment of the requirements  
for the degree of  
Master of Arts

September 2009

“Social Entrepreneurship as a New Paradigm: Rethinking Development Intervention Ideologies,” a thesis prepared by Rachael Lauren Zebrowski in partial fulfillment of the requirements for the Master of Arts degree in the Department of International Studies.

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## An Abstract of the Thesis of

Rachael Lauren Zebrowski                      for the degree of                      Master of Arts  
in the Department of International Studies                      to be taken                      September 2009

Title: SOCIAL ENTREPRENEURSHIP AS A NEW PARADIGM: RETHINKING  
DEVELOPMENT INTERVENTION IDEOLOGIES

Approved: \_\_\_\_\_  
Dr. Anita M. Weiss

After years of formalized international development efforts, the world continues to face significant problems. Humanity's greatest challenges – poverty, hunger, disease, and environmental degradation – remain prevalent and in some cases have even worsened. One reason the world's social problems are so resistant is an ideological failure to conceptualize a more inclusive economic order, one that values economic progress along with social justice.

In light of this failure, innovative business models have emerged that create transformational change by integrating social value and economic profit, often referred to as social entrepreneurship. By questioning the structural and ideological boundaries that limit the relationship between the public, private, and nonprofit sectors, this thesis argues

for social entrepreneurship as a viable means to overcome the predominant belief that economic and social progress are mutually exclusive goals.

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## ACKNOWLEDGMENTS

I wish to express sincere appreciation to Professors Anita M. Weiss, Renee Irvin, and Shankha Chakraborty for their assistance and support in the preparation of this thesis.



To my parents, Michael W. Zebrowski and Sue C. Zebrowski, without whom my education would not have been possible, and whose dedicated love, sacrifice, and generosity have taught me more than what is bound in the pages of books or discussed in the halls of Universities.

To my most treasured friend, Benjamin Lloyd Halpern, whose unconditional love and intrinsic wisdom has given me the courage to pursue my life's greatest dreams.

To Sara Medina-Pape, who took me to Africa and beyond, and whose life and spirit is a testimony of the power of individuals to change the world.

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## CHAPTER I

### INTRODUCTION

In the last two hundred years, the world's most developed nations have experienced an unprecedented generation of wealth. However, such success is not enjoyed in all countries and is not always matched by an equal caliber of social progress. As Gregory Dees notes, "A cursory look at world affairs should convince any thinking and caring person, regardless of political ideology, that we have considerable room for improvement" (Dees, 2007, p. 24). While "we may not all agree on our visions for an ideal world, the gap between reality and our notions of the ideal is still enormous" (Dees, 2007, p.24)

Every year, ten million people die of hunger or hunger-related disease, seventy-five million children are not enrolled in school, women earn one-third less than men for the same work and compose only eighteen percent of parliament seats worldwide, a child born in a developing country is thirteen times more likely to die in the first five years of life than one born in an industrialized country, there are 33.2 million people living with HIV, malaria kills a child every thirty seconds, two and a half billion people live without access to adequate sanitation, and development assistance would need to double to US\$100 billion a year to achieve the Millennium Development Goals (Human Development Report, 2008). In the face of these and other immense social problems,

many attempts have been made to better our world. Some of those attempts have been successful, but all too many of them have failed to generate substantial progress.

One reason these and other social problems are so resistant is the ideological limitations in the way society's most basic systems have been constructed (Yunus, 2006a; 2006b). In other words, the world is suffering from an ideological failure to conceptualize a more socially inclusive economic order because we continue to interpret capitalism too narrowly. At the heart of this failure is the division and categorization of society's most basic entities: the for-profit and nonprofit sectors. We have compartmentalized and segregated social value from economic value in this construction in a way that does not allow the two to integrate and capture the multi-dimensional nature of the human being. This has led to the inability of each sector to do a sufficient job of meeting social need, a problem that has gained attention in recent years.

At present, the nonprofit sector is encountering increased skepticism and subsequent financial pressures, largely the result of an inability to integrate the positive elements of the free-market into its structure (Johnson, 2000; Pallotta, 2009). Simultaneously, the for-profit sector is experiencing increased pressure from dissatisfied groups regarding its social inefficiencies and inability to deliver widespread social benefits. All of these problems have been exacerbated by the global economic downturn. As a result of this tension, societies are facing new questions regarding the most socially and economically efficient combination of these entities, and a need for a new system that integrates social and economic value becomes more apparent.

Over the last three decades, “social entrepreneurship” or efforts to use entrepreneurial, private sector approaches to address complex market and social needs have emerged. Many believe that social entrepreneurship represents a new structure and ideology that captures both a social and economic element. However, others argue that social entrepreneurship is simply an attempt to profit from social problems. This research interrogates these assumptions to determine whether social entrepreneurship truly transcends the boundaries dividing social and economic value.

Through social entrepreneurship, I believe we are beginning to institutionalize social value in an economic system that has become increasingly dehumanized; we are able to re-conceptualize existing sector boundaries between the public, private, and nonprofit sectors. While it may not result in widespread impact initially, social entrepreneurship does represent a viable movement towards altering the way we think about capitalism, globalization and development that could ultimately change the structure of business and nonprofit organizations.

As questions about the legitimacy and future of social entrepreneurship ensue, I hope this research will bring to light its potential as a transformative movement to create an inclusive economic system that overcomes prevailing ideological inabilities to value human content. Regardless of whether or not social entrepreneurship will prove a panacea to the world’s greatest challenges, I believe the examples utilized in this thesis demonstrate how social entrepreneurship can impact our approach to social development and bring us closer to realizing a truly social capitalism.

### Assumptions and Delimitations

In this thesis, I evaluate social entrepreneurship as a new paradigm and organizational structure for both developed and developing countries and discuss the ways in which it transcends current market inefficiencies (Nieuwenhuys, 2006, p.17). This research is an effort to help overcome the ideological barriers that keep us from realizing capitalism's full social potential. For those who may interpret this analysis as anti-capitalistic or anti-globalization, my intent regarding this constructive criticism is to identify the problems that exist and to treat those problems in a way that will create a more equitable and sustainable process. "All human institutions are imperfect, and the challenge for each is to learn from the success and failures" (Stiglitz, 2007, p. xvi). Despite marked global economic growth, the gap between the rich and the poor has widened and "a large part of the world's population is deprived of fundamental labor standards, the right to work and an adequate standard of living, health, and education" (Nieuwenhuys, 2006, p.17). In some cases, there has been a prioritization of economic values over social values, therefore, it is important that societies remain in a state of self-reflexivity and be willing to evaluate and alter even their deepest assumptions.

There are a variety of reasons contributing to the perpetuation of society's most devastating social ills and there is little agreement on the precise differences between countries that lead to such divergent experiences (Weil, 2008). Perhaps, "developers and donors from rich countries do not properly take into account how local survival mechanisms in developing nations work", such as kinship groups and subsistent production (Rosberg, 2005, p. xxi). Conceivably, political unrest and corruption left in

the wake of colonial domination or military conflict is also to blame. Moreover, there are underlying geographic or climatic conditions that can also lead to variations in development success. Much has been written regarding these debates, and it could be any combination of these and other factors that perpetuate development inequalities.

Undoubtedly, this subject is worthy of in-depth analysis. However, for the purposes of this study, the point is that the goals, values, and assumptions of the market do not wholly capture the goals, values, and assumptions of human beings and their social values; therefore, the system, as it stands today, is unable to meet our holistic demands.

Social entrepreneurship is gaining global popularity; many examples are emerging and the subject is experiencing increased scholarly attention. However, at this time, the field of social entrepreneurship remains a conglomeration of different ideas, institutions, and approaches yet to be established as a definitive concept. Therefore, this sector is relatively new as a scholarly subject and data is limited to an approximately 30-40 year time period.

This study has no geographical boundary; I have reviewed literature and cases from many countries and regions to scan social entrepreneurship globally. However, a large percentage of the existing research, particularly that related to the nonprofit sector is Western. Furthermore, the majority of the case studies and examples I have discussed were found via the few existing foundations and databases. I recognize that this may not represent a crosscutting sample of both successes and failures, as the social enterprises highlighted by these organizations tend to be the best in the field. Additionally, in reviewing existing case studies, I found that many social enterprises identify themselves

legally as nonprofit organizations. This is in part because there is a lack of existing legal infrastructure adjusted to the hybrid form of social enterprise. Undoubtedly, new legal frameworks will emerge to address this problem as the sector progresses. However, for the purposes of this study, I only selected organizations specifically identified as a social entrepreneurship or social enterprise in existing literature, or by a foundation or venture philanthropy organization. For more examples, *Fast Company* Social Capitalist Awards, The Skoll Awards for Social Entrepreneurship, the *PBS* Documentary “The New Heroes”, *The New York Times* article “Faces of Social Entrepreneurship”, Acumen Fund, and CASE are all excellent resources.

The following terms are used almost synonymously with social entrepreneurship to describe similar activities and initiatives: social enterprise, social business, social capitalism, social purpose venture, venture philanthropy, ‘double-bottom-line’ social ventures, social economy organizations, caring capitalism, and civic entrepreneurship (Henton, Melville, & Walesh, 1997; Yunus, 2006b; Cannon, 2000; OECD, 2007; Cordes & Steurerle, 2009). For the purposes of this study, the terms social entrepreneurship and social enterprise will be used alternately to represent the same concept. Additionally, the term social entrepreneur will be used to denote those who start or operate social enterprise organizations.

### Methodology

Social entrepreneurship, as a practice and a field for scholarly investigation, “provides a unique opportunity to challenge, question, and rethink concepts and assumptions from different fields” (Mair & Marti, 2008, p. 36). It has been called a



“fascinating playground for different theories and literature” (Mair & Marti, 2008, p. 37).

Additionally, many articles have been put forth explicitly to stimulate future research in the field of social entrepreneurship (Mair & Marti, 2008). Scholars have conducted their analysis “to provoke further exploration of the emerging phenomenon of social entrepreneurship, which [they] believe can make a great difference in the next century of human and societal development” (Alvord, Brown, & Letts, 2004, p. 280).

This thesis is a response to those calls for further exploration and different academic approaches to the study of social entrepreneurship.

Just as the practice of social entrepreneurship calls on development scholars, nonprofit and business professionals, and government officials to work together to craft genuine partnerships for change, the study of social entrepreneurship requires a holistic combination of academic research. Therefore, this thesis examines existing literature and theory from three diverse fields: development studies, nonprofit management, and economics. This integration is useful for understanding social entrepreneurship in a larger context.

Social entrepreneurship’s interrelatedness to development studies and agencies represents a particularly important gap in existing literature. While there has been an abundance of information either defining social entrepreneurship or targeting the training of social entrepreneurs, little has been said about the implications of its increasing popularity on social development organizations, ideologies, strategies, programs, and policies.

To address this problem, I have focused on the relationship between social development and economics and have paid particular attention to market inefficiencies highlighted by Joseph Stiglitz (2007) and evaluated social entrepreneurship accordingly. Additionally, I have identified some of the current principles, challenges and ideological failures faced by the nonprofit sector and addressed how social entrepreneurship may help overcome some of these issues. Finally, I have utilized a variety of scholarly works on the best practices in international development to identify challenges and make recommendations for the future of social entrepreneurship.

## CHAPTER II

### DEFINING SOCIAL ENTREPRENEURSHIP

As an emerging field, little consensus has been reached on an exact definition of social entrepreneurship. This is in part because the literature on the topic is so new and, in part, because the term entrepreneurship itself is inherently complex. “Similar to entrepreneurship in its early days as a field of scholarly endeavor, social entrepreneurship research is still largely phenomenon-driven...existing studies are typically based on anecdotal evidence or case studies, applying diverse research designs and methods and introducing insights from other disciplines” (Mair & Marti, 2008, p.36). Thus, as it is currently used in academic and popular literature, social entrepreneurship encompasses a broad range of activities and initiatives.

In this section, I discuss the emergence of social entrepreneurship and summarize some of the key definitions currently identified by leading scholars and organizations. I also present social entrepreneurship’s history, prevalence, structures, and approaches to social development.

#### History and Prevalence

Some believe the roots of social entrepreneurship are as deep as the world’s religions citing: “all religions encourage the quality of helping others in human beings, making social welfare an integral part of human history” (Yunus, 2006b, p. 4). Others claim that social entrepreneurship is associated with the values of “Victorian liberalism” (Alvy, Lees, & Thompson, 2000; Johnson, 2000; Mair & Marti, 2006, p. 36; Skoll

Foundation, 2008). Florence Nightingale, John Muir, Vinoba Bhave, and Maria Montessori are sometimes cited as historical examples for their once innovative approaches to social value creation (Ashoka, 2008). Some “historians remind us that there has been a long standing involvement of nonprofit organizations in commercial activity in the United States, suggesting that the blurring of the boundaries is an evolutionary development ...and not a discrete break from the past” (Cordes & Steuerle, 2009, p. 5). Others contest that the concept of social entrepreneurship as it is understood today, emerged in the 1980s from Bill Drayton, founder of Ashoka: Innovators for the Public, an organization designed to fund social innovators around the world, and Ed Skloot of New Ventures, which helps nonprofits explore new sources of income (Dees, 2007, p. 24). Some even argue, “no one is really charged with shaping or defining the field and term” (CASE, 2008, p. 5).

Despite these uncertain roots and varying interpretations, “social enterprise is thought to be something important, and something distinct from classical business and traditional nonprofit activity” (Young, 2009, p. 22). Broadly defined, social entrepreneurship is not an entirely new concept but “it has gained renewed currency in a world characterized by a growing divide between the haves and the have-nots” (Skoll Foundation, 2009). In the last several decades, social entrepreneurship has received considerable attention and a great deal of evidence suggests the field is gaining momentum. Many Universities, including Harvard, Stanford, Oxford, Columbia, New York, Duke, and the United Nations Mandated Graduate School of Peace and Conflict Studies have created programs of study in this area. Columbia Business School has also

founded The Research Initiative on Social Entrepreneurship (RISE) and Duke University has created the Center for the Advancement of Social Entrepreneurship (CASE). David Gergen, Harvard professor and former advisor to four U.S. presidents, called social entrepreneurs the “new engines of reform” (Dees, 2001, p. 24). The World Economic Forum has openly embraced social entrepreneurship and the World Bank has made many references to the concept in recent years (Dees, 2001, p. 24). Furthermore, the Organization for Economic Cooperation and Development (OECD) has acknowledged the need to “reconcile the economy and society”, which has resulted in their preparation of several publications, conferences and seminars on “social economy organizations” (Clarence & Noya, 2007, p. 3).

Additionally, several major foundations have been established in the name of social entrepreneurship, including The Skoll Foundation, founded by Jeff Skoll, former President of EBay; The Schwab Foundation for Social Entrepreneurship, Acumen Fund, and the PBS Foundation for Social Entrepreneurship (Skoll Foundation, 2009; Dees, 2001, p. 24; Acumen Fund, 2009; Ashoka, 2009; PBS, 2009; World Bank.com, 2009). There are also varieties of ‘blended value investors’ emerging, such as Good Capital, New Cycle Capital, Calvert Social Investment Foundation, Inc., and the Mercy Corps Phoenix Fund, which invest in social enterprise ventures (Skoll Foundation, 2009; The Phoenix Fund, 2009). Social entrepreneurship can also be found within the public sector. This is particularly true in the United States, as there have been numerous post-election calls for the promotion of social entrepreneurship via a government agency or ‘social innovation fund’ (Trexler, 2008, p. 2; Obama.com, 2009).

Major media in many parts of the world have also featured social entrepreneurship including: the *Economist*, *The New York Times*, *International Affairs*, *Business and Finance Magazine*, *Nonprofit and Voluntary Sector Quarterly*, *The Business Times Singapore*, *The Globe and Mail (Canada)*, *The Times (London)*, *Development South Africa*, *The Chronicle of Philanthropy*, *The Boston Globe*, *Crain's Chicago Business*, *The Standard*, *The Toronto Star*, *The Observer (UK)*, *The Age (Melbourne, Australia)*, *Africa News*, *The Guardian*, *Third Sector*, *The Washington Times*, *Financial Mail (South Africa)*, *The Korea Herald*, etc. Additionally, there is now an international Social Enterprise Journal associated with the Liverpool Business School (2009). The European Research Network (EMES) also recently held its 2<sup>nd</sup> International Conference on Social Enterprise in Trento, Italy.

Having appeared in this variety of different geographical, cultural, and national contexts, social entrepreneurship is a global phenomenon; the concept appeals to a variety of different individuals all over the world (CASE, 2008, p. 5). As Alvord et. al. (2004) point out:

The founders of these initiatives come from rich and poor backgrounds, from industrialized and developing countries. Some founders are individuals and some are teams; some are men and some are women. They include lawyers, professors, managers, and grassroots organizers. No immediately obvious and highly visible characteristics distinguish these leaders by background, country of origin, gender, and occupation, or even as individuals or groups (p. 271).

Though social entrepreneurship has widespread appeal, the evolution of social entrepreneurship, particularly across countries, varies greatly. As another practitioner observed: “ In some countries, social entrepreneurship has grown out of the social

economy, in others, there have been very strong links with the public sector” (CASE, 2008, p. 6). Similar to the development of social entrepreneurship in the United States, “social enterprise in Europe arises from evolution of the welfare state and the imperative to find new ways to control public-sector costs and address unemployment of marginalized populations” (Young, 2009, p. 33). However, “In the United States, we are fixated on nonprofits and for-profits... there is less concern in Europe about the strict separation of for-profit and nonprofit forms and more emphasis on governing arrangements that help ensure that an enterprise pursues the right combination of social and private goals” (p. 33). Regarding the developing world, “there is a long history of what is essentially social entrepreneurship –businesses of all sorts with social purposes” (CASE, 2008, p. 6). In the world’s least developed countries, “cooperatives and micro-enterprise, networks of nongovernmental organizations, and a variety of public-private partnerships constitute a web of activities that may be understood as social enterprise. It is tied to policy initiatives for economic development and grassroots efforts to address poverty-related concerns” (Young, 2009, p. 34).

Despite this variance in international interpretation, the concept or terminology is still prevalent. Therefore, social entrepreneurs seem to be at the “forefront of the movement, distinguishing themselves from other social venture players in terms of ultimate impact” and are poised to make a substantial difference in the way we think about business, nonprofit organizations, and development in general (Skoll Foundation, 2008).

## Definitions and Characteristics

We can summarize social entrepreneurship as a movement to address social problems by catalyzing the transformation of existing ideologies. It could also be said that social entrepreneurship “emphasizes problem-solving and social innovation - developing radical new approaches to solving old problems” (Johnson, 2000, p.1). Some say social entrepreneurship is the incorporation of business practices into the nonprofit sector, while others say it is the incorporation of social value into the economy. These varying descriptions are possible because there is currently no authoritative definition for the concept of social entrepreneurship (Light, 2008). However, even with this wide range of interpretations, some strong themes in social entrepreneurship emerge.

Innovation, social impact, sustainability, societal transformation, individual or citizen driven social change, challenging existing structures, merging traditional sector boundaries, and building a more inclusive market system, all characterize social entrepreneurship. However, the precise definition I find most fitting for this analysis states:

Social entrepreneurship is the product of individuals, organizations, and networks that challenge conventional structures by addressing failures –and identifying new opportunities – in the institutional arrangements that currently cause the inadequate provision or unequal distribution of social and environmental goods (Oxford Said Business School, 2009).

According to this definition, social entrepreneurship has the greatest ability to transcend contemporary ideologies by demanding a reconceptualization of basic assumptions concerning the structure of the economy. It emphasizes the institutional failures within the nonprofit and for-profit sectors I see as reasons for the persistence of social problems.



However, there are many other notable definitions, which demonstrate the significance of social entrepreneurship.

The Skoll Foundation, created in 1999 by former president of EBay Jeff Skoll, to invest in, connect, and celebrate social entrepreneurs, believes social entrepreneurship is distinct because it “aims for value in the form of transformational change that will benefit disadvantaged communities and ultimately society at large” (Skoll Foundation, 2008). It describes social entrepreneurs as those who seize opportunities to “challenge and forever change established but fundamentally inequitable systems” (Skoll Foundation, 2008). The Skoll Foundation views social entrepreneurs as those who act in a similar manner as business entrepreneurs, essential drivers of innovation and progress, calling them “pioneers of innovations that benefit humanity” (Skoll Foundation, 2009).

Another foundation, Ashoka: Innovators for the Public, describes social entrepreneurs as “the change agents for society” because “rather than leaving societal needs to government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to take new leaps” (ashoka.org, 2008). Ashoka’s vision for social entrepreneurship also takes on a grassroots approach with hopes to expand the global citizen sector by making “everyone a change maker” (2008). This definition emphasizes the importance of an engaged citizenry in determining the fate of society and also encourages regular individuals to become innovators. Kyle Taylor, 23, an advocate for the social entrepreneur movement who started his own mentoring organization, sums up this grassroots view saying, “Our generation is replacing signs and protests with

individual actions. This is our civil rights movement and what will define our generation (The New York Times, 2009).

A large group of researchers stress the characteristics and personalities of the individual social entrepreneur as the ‘driver of change’ and focus on their entrepreneurial mentality and tendency towards innovation as critical (Skoll Foundation, 2008; Ashoka, 2008; Acumen Fund, 2008; Mair & Marti, 2008, p. 38; Martin & Osberg, 2007). Gregory Dees, Faculty Director at Duke University’s Center for the Advancement of Social Entrepreneurship (CASE), and one of the leading scholars of social entrepreneurship for more than a decade, falls into this category. He describes social entrepreneurs as “individuals and organizations that bring to social problems the same kind of determination, creativity, and resourcefulness that we find among business entrepreneurs” (Dees, 2007, p. 24). Dees (2001) identifies five key activities that distinguish social entrepreneurship saying:

Social entrepreneurs play the role of change agents in the social sector, by i) Adopting a mission to create and sustain social value, not just private value, ii) Recognizing and relentlessly pursuing new opportunities to serve that mission, iii) Engaging in a process of continuous innovation, adaptation, and learning, iv) Acting boldly without being limited by resources currently in hand, and v) Exhibiting heightened accountability to the constituencies served and for the outcomes created (p. 4).

Similarly, CASE at Duke University has tried to organize social enterprises according to key themes: Innovation versus Enterprise, Individuals versus Organizations, and Systems Change versus Incremental Social Impact (2008, p. 4-5).

Bill Drayton (2002) describes social entrepreneurs as “individuals with innovative solutions to society’s most pressing social problems”. He views social entrepreneurs as ambitious and persistent, tackling major social issues and offering new ideas for wide-

scale change. The ideas or innovations developed by Drayton's social entrepreneurs are "user-friendly, understandable, ethical, and engage widespread support in order to maximize the number of local people that will stand up, seize their idea, and implement it" (2002). Additionally, Thompson et. al. (2000) described social entrepreneurs as "people who realize where there is an opportunity to satisfy some unmet need that the state welfare system will not or cannot meet, and who gather together the necessary resources (generally people, often volunteers, money and premises) and use these to 'make a difference'" (p. 328).

Many see social entrepreneurship as a means of intertwining social and economic value. Peter Drucker argues that social entrepreneurs "change the performance capacity of society" by combining market tools and social values to enhance our ability to solve social problems (Gendron, 1996, p. 37). Mair and Marti (2008) define social entrepreneurship "as a practice that integrates economic and social value creation" and "a process that catalyses social change and addresses important social needs in a way that is not dominated by direct financial benefits for the entrepreneurs" (p. 36). They view social entrepreneurship as a "process of creating value by combining resources in new ways" (p. 37). Similarly, the Acumen Fund, a global nonprofit venture capital fund, identifies social entrepreneurship as "institutions reflecting the diversity of business models that can be effective in reaching the "bottom of the pyramid" (BoP) –or the billions of poor without access to clean water, reliable health services, or formal housing options" (Acumen Fund, 2009). Schulyer (1998) describes social entrepreneurs as "individuals who exhibit all the skills of successful business people as well as a powerful desire for social change" (p. 1).

Boschee (1998) sees social entrepreneurs as “non-profit executives who pay increased attention to market forces without losing sight of their underlying mission” (Johnson, 2000, p. 5). Henton et. al. (1997) highlights the powerfully productive linkages at the intersection of business, government, education and community” in social entrepreneurship (Johnson, 2000, p. 5).

Some have used case studies of social entrepreneurs or social enterprises to categorize social entrepreneurship but results have been mixed. Drawing from sample interviews of social, business, and healthcare entrepreneurs, Barendsen and Gardner (2004) highlight the notion that social entrepreneurs are unusual “in terms of their compelling personal histories, their distinctive profile of beliefs, and their impressive accomplishments in the face of odds” (Social Edge, 2009, p. 50). Alvord et. al. (2004), using a sample of seven well-established social enterprises, found social entrepreneurs to be catalysts for social transformation.

For some, this confusion about definition, terminology and structure is a cause for great concern, as they believe it questions the legitimacy of the field itself. A 2008 CASE Report including interviews with eighty-five knowledgeable participants or observers in social entrepreneurship, found definition to be “one of the biggest problems in the field” (p. 3). Some were concerned that definitions are too broad and ‘water down’ the concept, while others worry definitions are too narrow and elitist (CASE, 2008, p.4). However, many are willing to “acknowledge that social entrepreneurship has enough problems, concerns, and passions in common to be part of a shared community of practice and knowledge” (CASE, 2008, p. 5). Mair and Marti (2006) see the lack of a definitive

definition as a “unique opportunity for researchers from different fields and disciplines, such as entrepreneurship, sociology and organizational theory, to challenge and rethink central concepts and assumptions” (p. 36-37). Thus, it is reasonable to identify social entrepreneurship as a legitimate interdisciplinary field in the midst of redefining interpretations of social development organizations.

### Organizational Structure

As discussed above, social entrepreneurship is defined in part by its ability to integrate the public, private and nonprofit sector. This results in a variety of different organizational forms in the field (CASE, 2008, p.1). A social enterprise “can be the product of a for-profit or nonprofit organization, as well as many hybrids in between these two poles” (Oxford Said Business School, 2009). The choice of set-up is typically “dictated by the nature of the social needs addressed, the amount of resources needed, the scope for raising capital, and the ability to capture economic value” (Mair & Marti, 2006, p. 39). It is also determined by whether or not the organization is an existing business or nonprofit, or is starting operations for the first time, though many believe it “can occur equally well in a new organization or in an established organization” (Mair & Marti, 2006, p. 37).

Some believe social entrepreneurships or enterprises must make a profit to distinguish themselves from other organizations. Brenda L. Massetti (2008) provides a matrix for understanding this view of social entrepreneurship. In her model, Massetti divides organizations into four quadrants: The Traditional Not-for-Profit (socially driven and dependent on donor funding), The Tipping Point (socially driven but must also make

a profit to survive), The Transient Organization (responds to market needs but are not driven by the need to make a profit), and The Traditional Business (market-driven and required to make profits). She sees social enterprises as 'Tipping Point' organizations and believes social enterprises must make a profit to distinguish themselves from other arrangements.

Muhammad Yunus, 2006 Nobel Peace Prize Laureate, founder of the Grameen Bank, and champion of social entrepreneurship, also believes social enterprises should earn a surplus. In the article, "Social Business Entrepreneurs are the Solution", the original inspiration for this research, Yunus (2006) outlines his vision for social entrepreneurship. He classifies social enterprises into four categories i) no cost recovery, ii) some cost recovery, iii) full cost recovery and iv) more than full cost recovery (2006, p. 5). Like Massetti, he believes that "profit-making is perfectly legitimate" with the condition that "investors not receive any dividends, or receive only token dividends (1-5%), if any at all" (Yunus, 2006b, p. 9). According to this model, any initial surplus should be used to pay back the initial invested capital as soon as possible. It is then up to the investors to decide whether to re-invest the funds into the social enterprise (Yunus, 2006b, p. 10). As is done via the Grameen Bank and its many partner initiatives, other surpluses should be used to improve or diversify the products or services of the social entrepreneurship. This creates a model of sustainability and self-sufficiency that allows the organization to grow and expand to maximize social benefit.

Despite the emphasis of these two scholars on profits in social entrepreneurship, many others recognize traditional nonprofit structures as viable social enterprises

demonstrating that there is currently no directive requiring a social enterprise to generate a profit or even be self-sufficient (Acumen Fund, 2008; Skoll Foundation, 2008). For example, the Skoll Foundation's approach often results in investing in traditional nonprofit organizations that do not make a profit and are not self-sufficient but are innovative and entrepreneurial in nature. Additionally, the Acumen Fund emphasizes the importance of financial sustainability for their investments, but does not require a surplus. Furthermore, Gregory Dees (2008) wrote an important article on this issue entitled, "Social Entrepreneurship is about Innovation and Impact: Not Income", which has since been widely acclaimed and endorsed by Duke University, Ashoka, and the Schwab Foundation amongst others (CASE). Therefore, social enterprises are sometimes nonprofit initiatives to find alternative funding strategies and entrepreneurial management schemes in order to become more sustainable but not necessarily entirely self-sufficient (Mair and Marti, 2006, p37 via Austin, Stevenson, & Wei-Skiller, 2003; Boschee, 1998b.).

While social enterprises do strive towards sustainability, neither financial self-sufficiency nor profit-generation is mandated. The criteria by which social enterprises are identified are generally a mix of social impact, sustainability/financial self-sufficiency, innovation, scalability and entrepreneurship (Dees, 2007; CASE, 2008; Mair & Marti, 2006). As a result, the most common form of social enterprise is the "hybrid" model of a for-profit and nonprofit organization that can generate some income, but still accepts or relies on philanthropic donations to continue its operations. Dennis R. Young's (2009) definition of social enterprise as "activity intended to address social goals through the

operation of private organizations in the marketplace” does well to capture the variety of social entrepreneurial models ranging from “traditional nonprofits to socially conscious for-profit business, and the number of hybrid arrangements in between” (Cordes & Steuerle, p.4).

### Approaches to Social Development

Social entrepreneurs also utilize a variety of approaches in their development efforts. They may focus on building local capacities, provide “packages” of goods or services, or facilitate local movements (Alvord et. al., 2004, p. 270). As one of the most prominent organizations funding social entrepreneurs, Ashoka’s social enterprises include economic development programs that provide access to financial services, use technology to stimulate rural economies, and facilitate access to income through factory-based daycare. Other social entrepreneurs focus “explicitly on mobilizing existing assets of marginalized groups to improve their lives, rather than delivering outside resources and services” (Alvord et. al., 2004, p. 270). Below I have highlighted some examples that represent the wide spectrum of social development approaches in social entrepreneurship.

There are numerous diverse examples of social entrepreneurship as a mechanism for providing innovative and socially mindful goods and services. One of the most successful and commonly cited examples of social entrepreneurship in this form is the microfinance movement, which revolutionized economics by offering “micro-loans” to help impoverished people, primarily women, attain self-sufficiency through self-employment (Skoll Foundation, 2008; *The Hidden Wealth of the Poor*, 2005). Though



not without flaws, microfinance has successfully challenged the existing structure of collateral banking to include people once denied any benefits from globalization. Aravind Eye Hospital, established in India in 1976 by Dr. Venkataswamy, is another example of a social entrepreneurship that provides products or services specifically for the “bottom of the pyramid”. It offers eye-care and cataract surgery to cure blindness at a fraction of the cost of the same services in the developed world or private sector (Mair & Marti, 2006, p. 38). This demonstrates how a social entrepreneurship may utilize a fee-for-service model to sustain their operations, but because they are not concerned with meeting shareholder demands for large returns, they can offer services at a more inclusive price. Another example is Pura Vida, a small coffee company based in Seattle that returns 100 percent of its fair-trade coffee profit to fund schools and hospitals in the South American communities where the coffee is grown (PBS, 2009). These each represent social entrepreneurship’s ability to provide traditional goods and services in more innovative and socially inclusive ways.

Other social enterprises seek to mobilize and empower communities. For example, the Campaign for Female Education (CAMFED) founded by Ann Cotton in 1993, ensures an education for young girls in Africa by establishing a sustainable model of schooling that provides community support for girls to go to school, start businesses, and return to their communities as leaders (Skoll Foundation, 2008). The work of Albina Ruiz with Ciudad Saludable in Peru and in the Andean region is another example. Ruiz, an engineer, developed an idea for a new community-managed system of waste collection that creates local jobs. Ciudad Saludable establishes strategic alliances with basic social

organizations, and with public and private entities and has become a model for urban and rural communities around Peru for sustainable management of natural resources (PBS, 2009).

Technological innovation is another important means for social change utilized by social enterprises. Benetech, based in Palo Alto, California, is one example of a social entrepreneurial venture, which provides social benefits by harnessing the power of technology and technologists to solve important problems facing society (CASE 2009). One of Benetech's many projects is Bookshare.org, which is now the world's largest library of electronic books for the disabled (Skoll Foundation, 2009). Another is Benetech's Martus Project, used in over 60 countries, which collects and disseminates information about the abuse of human rights (Skoll Foundation, 2009).

Apopo is another example of a particularly innovative social entrepreneurship. Bart Weetjens, the founder of Apopo, saw the limitations of using dogs in landmine detection and developed a method of training rats, which are cheaper and well suited for tropical environments, to assist in the process (Skoll Foundation, 2008). His "HeroRat" technology, which was first laughed at by mine removal experts, is now the leading method for mine detection in Africa (Skoll Foundation, 2008). Additionally, Sekem, created by Dr. Ibramhim Abouleish in 1977 as a social venture, is today a multi-business, which has reduced pesticide use in Egypt's cotton fields by 90% by using local knowledge and natural technologies (Mair & Marti, 2006, p. 38).

Social entrepreneurship can also take the form of innovative advocacy campaigns such as Transparency International, a "global civil society organization

leading the fight against corruption, [that] brings people together in a powerful worldwide coalition to end the devastating impact of corruption on men, women and children around the world” (Transparency International, 2009).

As demonstrated above, examples of social enterprise innovations and approaches are wide-ranging. Yet, despite their diversity, social entrepreneurship is able to capture all of these efforts in a new lexicon of social development initiatives.

### CHAPTER III

## SOCIAL DISSATISFACTION WITH THE IDEOLOGICAL LIMITATIONS OF THE CURRENT ECONOMIC ORDER

In the last several decades, two simultaneous movements have been occurring that signal fundamental problems with the ideological conception of social and economic development. The first relates to mounting global dissatisfaction over the social failures of some free market policies and institutions. The second is related to the lack of economic freedom accorded to the nonprofit sector and the ensuing dissatisfaction with this important branch of the economy. Understanding each of these movements and the ideologies that drive them is important in gauging where social entrepreneurship lies on the spectrum of development ideologies.

### Social Inefficiency Related to Free Market Ideology

Social entrepreneurship is part of a movement that has emerged from the political, economic and social changes occurring around the globe. As Dees (2007) states,

To put the current interest in social entrepreneurship into perspective, it is useful to think about human history as a series of experiments in social organization—from family, clan, and tribal structures to the elaborate governmental, corporate, and social structures of today. These experiments can be seen as a response to the question: How should we organize ourselves, publicly and privately, to move closer to the ideals of a good society?” (Dees, 2007, p.25).

One of the most significant changes that impacted the structure of societies around the globe has been the “shift away from a social welfare state approach to development and towards a neoliberal approach with an emphasis on market forces as primary mechanisms for the distribution of resources” (Johnson, 2000). This was founded on the premise that

the market would best serve social needs and led to the indirect belief that the path to human progress is an increase in economic growth and consumption (McMichael, 2008, p. 5; Sen, 2000, p. 3). While the impacts of this shift in ideology have been “generally discussed in political and economic terms, it is also important to recognize the significant implications they also have had on social change” (Reis, 1999 from Johnson, 2000, p.2).

Since the ‘idea of progress’ emerged in the seventeenth century and gave “primacy to the economic view in our ideological universe”, societies have relied largely on economic growth to realize a socially optimal outcome (Shanin, 1997, p. 67). In a sense, economic supremacy has become a “normal science as defined by Kuhn where, once established, a field of knowledge defines its own questions, brushing aside as illegitimate other questions, and evidence, which do not fit its assumptions” (Shanin, 1997, p. 69). In other words, “We have remained so mesmerized by the successes of the free-market that we never dared to express any doubt about our basic assumption” (Yunus, 2006b, p.1). That assumption – that economic progress will ultimately bring about a socially optimal system – has inadvertently led to the devaluation of social welfare and thus, society’s center has become “increasingly empty of human content” (Shanin, 1997, p. 70).

The dominance of economic value is not surprising since the world has seen the success of globalization and free-market capitalism in the most-developed countries. Awed by these success stories, much of the world eagerly embraced the ‘invisible hand’ philosophy that “markets, by themselves, without government intervention, are efficient, and that the best way to help the poor is simply to let the economy grow—and somehow,

the benefits will trickle down ” (Stiglitz, 2007, p. xvi). These subsequently led to a “one-size-fits-all” approach to development in which countries of all different sizes, with different resources, and with starkly different histories and cultures, were expected to follow the same system of economic liberalization (Stiglitz, 2007).

Unfortunately, for the world’s least developed countries, the structural adjustment programs of the former ‘Washington consensus’ have failed to deliver the widespread results once expected (George, 2008). Today, “almost half of the post-colonial world now dwells in slums,” which suggests that, while economic globalization may work for some, it is not working for all and instead creates a system of ‘winners’ and ‘losers’ (McMichael, 2008, p. 1-2; 7). In certain cases, economic liberalization has driven out shocking numbers of people from their homes and communities that had provided them a modest but dignified life. “Dams, forestry projects, and many other interventions financed by the World Bank and other foreign assistance agencies have disrupted their lives for purposes that benefited those already better off” (Korten, 1999, p. 5). There are now countless cases (“shock therapy approaches in former Soviet Union countries, the East Asian crisis, etc.) in which the policies of “market fundamentalist” institutions, such as the World Bank and International Monetary Fund, have clearly made things worse (Stiglitz, 2007).

Another concern with the evolution of this economically dominated mentality is measuring progress in terms of economic growth alone does not accurately measure value that cannot be quantified in dollars. As McMichael (2008) says, “activity that commands a price, or generates cash, counts overwhelmingly as the measure of development, despite

a range of other valued cultural practices that reproduce social and ecological relations, for which money is meaningless” (p. 4). While prolonged differences in growth rates between countries do result in significant differences in living standards, the measurement of growth alone is unable to capture the possibility of development “as a process of expanding the real freedoms that people enjoy” (Weil, 2008; Sen, 2000, p. 3). As Sen (2000) says, “Growth of GNP or of individual incomes can, of course, be very important as *means* to expanding the freedoms enjoyed by the members of the society. But freedoms depend also on other determinants, such as social and economic arrangements, as well as political and civil rights” (p. 3). By overemphasizing economic growth, we have indirectly devalued anything not easily converted into dollars and have not yet fully conceptualized a measure for valuing human welfare outside of monetary understanding (Waring, 1990). Therefore, achievements in social value creation, such as peace, empowerment, community cooperation and quality of life, from being counted as development progress unless they are converted into monetary activities (Waring, 1990; Graeber, 2007).

Some call this dilemma, a “moral bankruptcy of the system” (Stiglitz, 2002; Waring, 1990). Both Stiglitz (2002) and Waring (1990) believe we have created a system of profit supremacy that in certain cases actually rewards socially suboptimal behavior. For example, under the current system, shareholders reward companies when they report high financial gains that may result from paying less than living wages or cutting corners on environmental protections. Additionally, corporate interests or financial gains, as opposed to human interests, frequently dominate private and political agendas

(Transparency International, 2009). This is evident in the use of corporate funding to buy political influence (Transparency International, 2009). Under the current system, “global corporations and financial institutions have turned their economic power into political power...and now dominate the decision processes of governments, rewriting the rules of world commerce ... to allow themselves to expand their profits without regard to the social and environmental consequences borne by the larger society” (Korten, 1999, p. 6).

Inequality, which is widely accepted as socially suboptimal, has also been on the rise. “Since 1970, the gap between the richest and the poorest twenty percent of the world’s population has more than doubled, now standing at about 89:1” (McMichael, 2008, p. 8). As evidence of this intense disparity, “in 2007, the CEOs of large U.S. companies were paid in one day what the average US worker makes in an entire year” or roughly 364 times the pay of the average American worker (Dickson, 2008).

One reason for the strong commitment to extreme free market economic policies for the last several decades, despite signs of a need for more nuanced economic development, may be related to the legacy the Cold War left with the generation who experienced it. Additionally, widespread government failure has inclined individuals and communities to seek private sector solutions. However, coinciding with “market triumphalism associated with the collapse of the Soviet empire in 1989, the globalization project perhaps reached its zenith in 1994-95” for it was then that Mexico’s currency crisis ensued and the Chiapas protests against the failures of economic liberalization began (McMichael, 2008, p. 21). Since the Chiapas movement, in many parts of the



world, there has been growing contention from those who have fallen victim to the market social failures of neoliberal doctrine.

From the anti-globalization protest at the 1999 World Trade Organization Ministerial Conference in Seattle to the increasing hostility over the world's scarce resources, attention has been building on the heavy human and environmental costs imposed by the current system of unchecked economic development. In recent years, a collective questioning of our current system has spurred and created a situation of increasing global tension regarding the future of development. The new generation is less committed to the order of things, more skeptical of the prevailing system, and perhaps, more adaptable to change (Yunus, 2006a; 2006b). Even amongst once vehement proponents of extreme free market policies, there is growing recognition of more than one form of measuring value and more than one "right" path towards development (Stiglitz, 2007). There are signs that societies are now beginning to rethink the principles and assumptions that have shaped the current economic order. For example, the Washington Consensus is slowly being replaced by the Santiago Consensus (1998), which recognizes market failures and promotes poverty and inequality alleviation, as well as environmentally sustainable development (Weil, 2008).

Creating viable and innovative solutions to our current system has proven to be an overwhelming challenge and. However, many are beginning to conceptualize an alternatives. As Korten (1999) says in his book, *The Post-Corporate World*, "Too often, those of us who long for alternatives feel powerless and alone. In fact, however, we are not alone. There are hundreds of millions of us—possibly billions—a part of evidence I

see that our species is in the midst of a profound awakening to a new appreciation of what it means to be truly human” (p. 3). As part of this awakening, many scholars have emerged who challenge the prevailing economic liberalization theories and give voice to the need for change.

In recent years, the “orthodoxy has increasingly come under assault by a group of economists and social scientists who would like to see the narrow concept of economic development replaced with a broader notion of social, or human, development” (Kapur, 1998, p.40). One of the most notable contemporary development economists is perhaps Nobel laureate, Amartya Sen. In a variety of works, Sen (2000) has discussed the details of inequalities built into the existing mechanisms of modern society and has fervently defended political and social freedom. William Easterly’s *White Man's Burden* (2006) is another important example of modern criticism of the current economic order.

Additionally, Jeffrey Sachs’ *The End of Poverty: Economic Possibilities of Our Time* (2005) and *Common Wealth: Economics for a Crowded Planet* (2008), are part of a growing discourse regarding a more nuanced economic ideology. Furthermore, the work of Helen Norberg-Hodge has been important in drawing international attention to the value of local structures and indigenous societies and the negative affects of economic liberalization and globalization on those few remaining communities. By highlighting the strengths of traditional societies, she questions the ideological paradigm of ‘primitive’ versus ‘advanced’ societies, a development myth that has contributed to the expansion of the global economy (Norberg-Hodge, 1991). Vandana Shiva, an international figure who also vehemently opposes the negative effects of economic globalization, has written

many important works regarding the importance of women and the environment in modern development discourse.

In addition to these authors, new models of holistic development are emerging. One of the most notable is the “new Kerala model” of development that “explicitly seeks reconciliation of social, productive and environmental objectives at the local level, and tries to develop synergies between civil society, local governmental bodies, and the state government” (Vernon, 2001, p. 601). This model offers important lessons on social-sustainable development and community participation, because, despite a very low per capita income and slow economic growth rates, progressive state interventions and popular movements have brought high levels of social development and improved living conditions in Kerala (Vernon, 2001; Kapur, 1998). Policies such as a generous minimum wage and a land-reform program have helped to promote egalitarianism in the state. This integration of the government, NGOs, civic movements, and business demonstrates the possibility for a better model, particularly when it is community based, decentralized, and goes beyond mere state regulation (Vernon, 2001, p. 601). However, much of Kerala does still remain poor and the future of its resistance to modern industry is uncertain, which suggests a need to carefully integrate economic development into their already strong social model (Kapur, 1998, p.45). Additionally, countries like South Korea and Taiwan are demonstrating that deregulation, trade liberalization, and privatization can be effectively balanced with government intervention and control to achieve economic growth and success (Weil, 2008).

Many advocacy groups and global ‘watchdogs’ have also emerged in recent years (Jenkins, 1998). They have proposed initiatives to reduce the environmental and social costs of globalization (Jenkins, 1998). Many new treaties and legal requirements, including the Kyoto Protocol and the International Covenant on Economic, Social and Cultural Rights, have made substantial progress from this movement, signaling the willingness and necessity of such initiatives.

The increasing attention to the concepts of triple-bottom-line development and social sustainable development also offer signs of social progress. New means for measuring development or progress have begun to emerge. “In 1972, the King of Bhutan coined Gross National Happiness (GNH) as a qualitative benchmark combining material and spiritual development in emphasizing equality, preservation of cultural values, environmental sustainability and good governance” (McMichael, 2008, p. 19). This perhaps influenced the creation of the Human Development Index (HDI) generated by the United Nations, which utilizes life expectancy at birth, adult literacy rates along, and Gross Domestic Product to evaluate a country’s status. Since 1990, the UN has also produced annual Human Development Reports that explore poverty, gender, democracy, human rights, cultural liberty, globalization, water scarcity and climate change. Additionally, the Gender Development Index (GDI) and the Gender Empowerment Measure (GEM) have addressed disparities amongst men and women in development. The Genuine Progress Indicator (GPI) founded in 1995 by Redefining Progress, a public policy think tank, is another exciting example which starts with the same personal consumption data found in GDP, but adjusts such data for factors such as income

distribution, adds the value of household and volunteer work, and subtracts the costs of crime and pollution. For examples, utilizing this method, the value of timber would be adjusted according to its environmental cost and then reported in GDP accordingly.

These concepts all acknowledge that “globalization does not have to be bad for the environment, increase inequality, weaken cultural diversity, and advance corporate interests at the expense of the well-being of ordinary citizens” (Stiglitz, 2007, p. xv). Though there are clear, unsustainable and even disastrous problems in the current system, realism rejects the idea that the world should give up on capitalism altogether, especially when such great promise still exists. “Ordinary citizens of the advanced industrial countries, as well as of the developing world, share a common interest in making globalization work” (Stiglitz, 2007, p. xiii-xiv). Economic development and market forces have a vital role in helping solve the world’s social ills. Despite all of the free-market’s problems, “we must also recognize that no other large-scale economic system has been able to do as well for so many, and that many of the vast gains in areas such as food production, technology and science, and medicine are directly attributable to the same economic drives” (Robbins, 2005, p. 106).

Certainly, there are those who would like to see a dramatic turn away from economic globalization. However, most parties seem to acknowledge that “some trade, some investment, and some aid under the right conditions can be a vital force in building healthy and sustainable economies” (Broad, p. 244). In fact, sometimes, “the lack of substantive freedoms relates directly to economic poverty, which robs people of the freedom to satisfy hunger, or to achieve sufficient nutrition, or to obtain remedies for

treatable illnesses, or the opportunity to be adequately clothed or sheltered, or to enjoy clean water or sanitary facilities” (Sen, 2000, p. 3). Therefore, it is as naïve to assume that economics does not have a place in development, as it is to assume that free and unregulated markets alone will result in a socially optimal world. However, it is still important “to understand the dynamics of the system so that we can understand what we may need to give up and what we are able to maintain if we ever hope to solve global problems” (Robbins, 2005, p. 106-107).

Ultimately, the current limited interpretation of capitalism, which in certain cases overemphasizes economic goals, “insulates entrepreneurs from all political, emotional, social, spiritual, environmental dimensions of their lives” and forces them to “transform themselves into the one dimensional beings as conceptualized in the theory, to allow smooth functioning of the free market mechanism” (Scheuer, 2000). Yunus, 2006b, p.1). Because of the social potential of capitalism and in light of the above-mentioned problems, Muhammad Yunus (2006a) likely speaks for many when he says, “I am in favor of strengthening the freedom of the market. At the same time, I am very unhappy about the conceptual restrictions imposed on the players in the market” (p.1). Internationally respected economist, Joseph Stiglitz (2007), shares a similar view emphasizing a “need for balance” and advocating for the “advance of policies promoting equality and full employment” (p. xii-xiii). This ideology of compromise advocates revitalizing local economies, honoring collective property rights, and asserting basic economic and social rights for all. It focuses on empowerment of the local parts of society and the role of grassroots movements, but argues for government intervention as

well. It relies on “a belief that an informed citizenry is more likely to provide some checks against the abuses of the special corporate and financial interests that have so dominated the globalization process” (Stiglitz, 2007, p. xiii-xiv). That informed citizenry, those that still view globalization and free-market capitalism as something that can be re-worked, are compelled by the concept of social entrepreneurship. They believe in the ability of humanity to utilize the best tools of the market in socially meaningful ways and seek to rethink the existing structure of the economy.

### Economic Inefficiency Related to the Nonprofit Ideology

For decades, the third sector, also known as civil society or the nonprofit sector, has played a critical role in picking up the slack when both governments and private business fail to meet social need. This sector has made remarkable progress on a variety of social issues. However, as a result of a “heavy ideological overlay remnant of Puritan times,” the nonprofit sector suffers from a lack of economic freedom that limits its full potential to eradicate social problems (Pallotta, 2008, p.7).

Nonprofit organizations are trapped by “a set of rules that were designed for another age and another purpose, and that actually undermine their potential and our compassion” (Pallotta, 2008, p. xii). For example, the current nonprofit ideology assumes “people who want to work in the nonprofit world should be more interested in the good they can do than the money they can make” (Pallotta, 2008, p. 6). Subsequently, this means “those who want material abundance do not have the concern of the needy at the forefront of their minds” (Pallotta, 2008, p. 6). This assumption identifies human beings as existing in polar extremes: either you want to help the poor or you want to help

yourself and there is no middle ground to capture the reality that humans are multi-dimensional and motivated by more than one factor. Additionally, under this assumption and consequential system, it is unacceptable for someone to make millions fighting global poverty or gender inequality, but it is perfectly acceptable to do so in industries that may actually be socially harmful, such as in the tobacco industry (Pallotta, 2008). This belief that charities are meant to be one hundred percent mission driven and subsequently relatively poor is ingrained in nonprofit ethos (Pallotta, 2008). That ethos tells us “nonprofit means you do not seek gain for yourself. So when someone wants a high salary...it is a violation of the fundamental basis of the system” (Pallotta, 2008, p. xii).

Another assumption of the nonprofit ideology is that charities should not take risks (Pallotta, 2008). This aversion to risk taking prohibits nonprofit adaptation and innovation and may be the reason the nonprofit sector has traditionally been the slowest to change. “In the last 50 years, only two new nonprofit organizations have entered the ranks of the nation’s largest organizations- otherwise the top charities remain the same, year after year” (Watson, 2009). By discouraging programs that are considered high-risk or innovative, the sector is unable to evolve and achieve its greatest impact.

Contributing to the inefficiencies of the nonprofit sector is also the notion that nonprofit organizations have a responsibility to spend the majority of their funds every year without saving or investing for the future. In other words, “charities do not have the luxury to think about the future” because they should spend money immediately to address social problems. Certainly, there will always be causes that require immediate



attention, and nonprofits should not be afraid to spend money when the need is dire. However, limiting a nonprofit organization's ability to invest in the future is denying them a more sustainable existence (Pallotta, 2008, p.7).

An additional assumption is, "charities should not waste money on expensive advertising... it is money that could otherwise go to the needy" (Pallotta, 2008, p.6). This is counter to the "nearly three hundred years of capitalist productivity" which tells us "advertising builds consumer demand" (Pallotta, 2008, p.6-7). Under the current ideology, businesses are allowed to utilize advertisements and fundraising mechanisms largely without restrictions; however, charities seeking to fulfill their mission have been forced to limit their use (The Impact of Data Restrictions on Fundraising for Charitable & Nonprofit Institutions, 2002; GuideStar, 2009). This relates to the assumption: "charities should maintain a low overhead percentage" (Pallotta, 2008, p. 6). Though asserted with good intentions, this translates into increasing restraints on a nonprofit organization's ability to capture the funds they need to fulfill their missions (Pallotta, 2008). Recently, a large amount of information has been disseminated about nonprofit fundraising costs by so-called "industry watchdogs", like Charity Navigator ([www.guidestar.org](http://www.guidestar.org)). However, many argue that the data they use does not tell the whole story. A 2005 study by the National Council on Nonprofit Associations concluded: "There is a great potential for these [fundraising] ratings to be misinterpreted and misused. In the worst case scenario, donors could withhold vital contributions from a worthy organization based on inaccurate, incomplete, or misunderstood information" (Strauss, 2005). Reports on

fundraising costs alone do not account for how much good is done with the funds raised that would otherwise have been impossible.

Each of the above assumptions perpetuates several of the key problems facing the nonprofit sector: increased conflicts and constraints over nonprofit resource development and financing, and the reliance of the nonprofit sector on private sector surplus. Despite the great deal of wealth that exists, there is still immense struggle within the nonprofit sector to capture enough resources. According to the National Council of Nonprofits, in light of the latest economic downturn, the demand for social services has increased, while the transfer of funding to nonprofit organizations has decreased significantly (2009). This is a trend that is not entirely new. For example, in the United States, federal and state funding for nonprofits decreased 23% in the 1980s, and continued to decline in the 1990s” despite a rise in the number of nonprofit organizations in search of funding (McLeod, 1997 via Johnson, 2000, p. 2). As a result, nonprofit organizations are facing inflated competition and issues regarding the sustainability of funding have become serious concerns. Many believe this scarcity of resources takes away from the overall mission and provision of services because nonprofit organizations must spend a large portion of time and energy on fundraising activities. The assumption that nonprofits should not spend money on advertising exacerbates this problem and forces nonprofits to work even harder for fewer funds. If nonprofits are allowed to utilize the tools of the market, they may have more resources to spend meeting social needs.

Furthermore, because of the assumption regarding nonprofit overhead costs, nonprofit organizations have been forced to pay increased attention to administrative

costs as compared to program expenditure. “In the past, information about performance in the nonprofit sector has not been clearly and keenly demanded, required, assembled, and analyzed to the same extent as in the for-profit or public sector” (Anheimer, 2006, p. 6). Today, however, it is becoming more and more important that nonprofit reporting be accurate and available. Because of this intensified scrutiny over nonprofit expenditures, fear of losing donations has caused some organizations to distort fundraising or administrative costs. According to a new study from the Indianapolis-based Center on Philanthropy at Indiana University and the Center on Nonprofits and Philanthropy at the D.C.-based Urban Institute, many nonprofit organizations under-report their fundraising and administrative costs (Indiana University, 2004). As a result of these violations, the Supreme Court recently ruled that fundraisers could be sued for fraud if they intentionally mislead donors regarding how their charitable contributions are used. (*Washington Post*, 2003). This has contributed to an increase in negative media attention surrounding the costs of fundraising in nonprofits. Headlines like, “Veterans Charity Falls Short in Giving Back” from the *Stamford Advocate* in 2006, “High Overhead Costs at Indianapolis Nonprofits, Study Finds” from the *Indianapolis Star* in 2005, “Study Sheds New Light on How Charities Raise and Spend Donors’ Contributions” from a Center on Philanthropy at Indiana University press release in 2004, and “High Court: States Can Sue Charities for Fraud” from the *Washington Post* in 2003 have emerged. This problem has even been taken international as evident in the articles, “Poor Nations Complain Not All Charity Reaches Victims”, in the *New York Times* in 2006, which highlights the complaints of foreign governments regarding how aid agencies raise and spend charitable donations

(Strom, 2006). Each of these cases contributes a growing loss of donor confidence and increase in public skepticism of the nonprofit sector.

Independent Sector, a Washington, D.C.-based coalition of nonprofits, foundations, and corporate philanthropy programs, is taking the lead in combating the growing public cynicism towards nonprofit organizations. The coalition has endorsed recommendations that encourage the public to trust nonprofit organizations and give general operating support grants that provide the most flexible funding to their nonprofit partners (Independent Sector, 2004). Additionally, many books such as *The Law of Fundraising* by Bruce R. Hopkins, have emerged to help nonprofit organizations sort through the increased regulations, protect their image, and justify their costs. However, these efforts are only temporary solutions to a much deeper problem: “Low overhead percentage does not give you any data about the good [a nonprofit] is doing in the world. If charities focused more on solving the world’s problems than on keeping overhead low, more of the world’s problems would get solved” (Pallota, 2008, p.7).

Another problem with the current system is that it isolates social responsibility into just one sector of the economy. Just 30 years ago, the government was the center of social programs and nonprofit organizations were primarily “partners in public service,” but post-Reagan, the image of decentralized democracy moved social programming away from government hands (Trexler, 2008, p. 2). While putting social responsibility into the hands of millions of private philanthropists is arguably democratic and more efficiency, it is also possible that by further separating the three sectors, the public and for-profit sectors have relinquished too much responsibility, writing it off as the job of the

nonprofit sector. This is particularly evident in the corporate world because corporate donations comprise a very low percentage of total donations compared to that of private individuals (Coady, 2007).

Despite these shortcomings, the structure of the nonprofit sector has largely managed to avert reflective questioning: “Like most people, I never asked questions about our system of charity. Why would I? Who was I to question a system that had been around for centuries? It never dawned on me to ask questions about it” (Pallotta, 2008, p. xi). However, that is changing with the recent rise in scrutiny, competition, and constraints placed on nonprofit organizations. As a result, the nonprofit sector is now at a pivotal moment in its development. The sustainability of the nonprofit structure is in question and thus, its future is uncertain. The same questions that critics of the current state of economic globalization have been asking are now being asked of the nonprofit sector: “As we look around at the persistence of poverty and need, of disease and suffering in a world of unimaginable affluence and productivity, we have to ask ourselves, does the system work? Is it the best system we could have? What other systems are available?” (Pallotta, 2008, p.xi).

Each of the above-mentioned assumptions and problems attest to the isolation of the nonprofit sector from the rest of the economy. By placing unrealistic expectations and denying nonprofits full economic freedom, we are actually hindering our society’s best chance at solving social problems. Additionally, by separating the nonprofit and for-profit sectors, social causes have been compartmentalized away from the for-profit system, insulating it from social value and contributing to the compartmentalization of

social and economic goals. In other words, the persistence of social problems is not only due to the failure of neoliberalism to value social needs, it is also due to a failure to allow the nonprofit sector any economic freedom. Therefore, a need for a solution that addresses the underlying limitations in the ideological conception of both the nonprofit ideology and the neoliberal ideology is evident.

## CHAPTER IV

### TRANSCENDING THE IDEOLOGICAL DIVIDE

As demonstrated above, current structures and ideologies are contributing to a series of problems in social development. Therefore, a new interpretation of the current system of social and economic development is desirable. In this section, I discuss the ways in which social entrepreneurship can generate the needed structural change by transcending the existing ideological boundaries between social and economic value.

#### Social Entrepreneurship as a Holistic Approach to Development

Social entrepreneurship is a realization that economic, social and environmental components of human welfare are in fact compatible. It is not just the incorporation of private sector, entrepreneurial practices into social development. As Albornoz and Shuck (2008) state:

It is a mistake to believe that social entrepreneurship is just a subset of business activities aimed at more 'social' outcomes, much like corporate social responsibility...this is a dangerously limiting approach to the extraordinary richness of socially entrepreneurial activity that is found in all three sectors of society (p.248).

The goals, policies, and motivations of social entrepreneurship transcend existing limitations placed on the current economic system which are sometimes 'disempowering', 'top-down', 'male-biased', 'formulaic', and 'exclusionary'. Instead, social entrepreneurship is, in many ways, the opposite: 'empowering', 'participatory', 'gender-equitable', 'people-centered', and 'inclusionary' (Eade, 2003, p.2). Despite these marked differences, social entrepreneurship does incorporate the more positive elements

of market economics and can be interpreted as a market-based reform. This is constructive for two reasons: first, as demonstrated in earlier chapters, the market is in need of reforming, therefore, a solution focusing on market-oriented change is desirable; second, there are many advantageous elements of socially mindful free-market capitalism that are not only worth preserving, but may be critical to overcoming some of the world's problems.

Though still imperfect, social entrepreneurship adopts a holistic approach to social development. Social enterprises "broaden the conception of the market beyond the merely neoliberal to suggest that markets establish change value and that this is inevitably socially embedded" (Oxford Said Business School, 2009). Therefore, social entrepreneurship can create "economic growth but also recognizes the importance of an equitable distribution of resources, an open-minded, socially engaged population, and a certain degree of enlightened governance" (Kapur, 1998, p. 45).

Social entrepreneurship does not rely on economic growth alone to result in social progress. Instead of expecting markets to deliver socially optimal results, social entrepreneurship specifically utilizes and controls market principles to achieve social goals. Additionally, social enterprises do not merely measure profit, but rather use holistic criteria to measure success; they give a higher priority to promoting social value and development versus capturing profit (Mair & Marti, 2008). For example, the Skoll Foundation and Fast Company measure success specifically on social impact, entrepreneurship, innovation, aspiration and growth, scale, cost effectiveness, and sustainability.



Social entrepreneurship also does not simply advocate increasing production and consumption but rather, seeks ways to alter the market to make the world a better place. What makes social entrepreneurs distinct from business entrepreneurs is how they “aim for value, not just in the creation of new markets, but in the form of transformational change that will benefit disadvantaged communities and ultimately society at large” (The Skoll Foundation, 2009). This change could be in the form of designing an affordable alternative to a necessary but otherwise unattainable product, such as is done by Aravind Eyecare, or OneWorld Health, a social entrepreneurial pharmaceutical company that develops safe, effective, and affordable medicines for developing countries (Dees, 2007, p.24). It could also mean stimulating growth by generating new jobs, like the organization Ciudad Saludable discussed earlier. Social entrepreneurs like these “pioneer innovative and systemic approaches for meeting the needs of the marginalized, the disadvantaged and the disenfranchised – populations that lack the financial means or political clout to achieve lasting benefit on their own” (Skoll Foundation, 2009). Social entrepreneurs highlight the ability of individual citizens to act in their mutual interest, rather than in their own self-interest, to achieve a more equitable and desirable reality.

Social entrepreneurs also favor cooperation over competition as evident in their support of sustainable cooperatives and fair trade regimes. “Promoting collaboration between sectors is taken as implicit within social entrepreneurship, blurring the traditional boundaries between the public, private and nonprofit sector” (Johnson, 2000). One example is Six-S (Se Servir de la Saison Seche en Savane et au Sahel) an organization founded by a team of development activists from France and Burkina Faso

who work across North-South boundaries as well as with villages, donors, and governments (Alvord et. al., 2004, p. 266). With this collaboration, they have helped 1,500 villages develop self-sustaining income-generating projects and strengthened village infrastructure.

Departing from the notion that the government should minimize intervention, social entrepreneurs, see government actions as vital in protecting citizens' rights and in controlling unbridled exploitation of peoples and the environment. The Self-Employed Women's Association (SEWA) is an example of a social entrepreneurial organization, which built local leadership capacity specifically to influence government standards for India's self-employed/unorganized female laborers (Alvord et. al., 2004, p.266). In other cases, social entrepreneurships advocate for greater government protections against corporate corruption as demonstrated by the social enterprise Transparency International. Despite the importance that social enterprises place on government intervention, they also recognize that government inefficiency and government failures due to corruption and bureaucracy are in part contributing to disparities in development amongst countries. Therefore, social entrepreneurship remains a private sector solution and not a government driven initiative.

Instead of promoting the expansion of global corporations, social entrepreneurships also favor community business models, social-sustainable partnerships, and community self-sufficiency, all of which promote a more sustainable means for development. This is seen in numerous examples of social entrepreneurship and several of the specific examples discussed above, including the microfinance movement, which

helps individuals become self-sufficient as business owners instead of wage laborers. Recognizing that “local production systems that service the global market often negatively affect the sustainability of local habitats and the planet itself”, social entrepreneurship also has an ideological tendency towards expanding community ownership of resources, property, and knowledge (McMichael, 2008, p.13).

One way social entrepreneurship is utilizing free-market principles is in its ability to promote efficiency. Like traditional entrepreneurs, social entrepreneurs use innovation to find more effective and efficient ways to provide an existing service or create a new product. However, social enterprise defines efficiency more holistically than minimizing costs and maximizing profits because it emphasizes social impact and quality.

Social entrepreneurship also relies on private citizens to design and implement social innovations and therefore, has an element of neoliberal “privatization”. Though social entrepreneurs see value in the government’s ability to protect human rights and ensure democracy, social entrepreneurship does not simply seek to centralize power in the hands of the government to create rules and regulations. As Dees (2007) states, “Some social innovations are unlikely to be very effective if they are carried out by government organizations. The private nature of social ventures can be a distinct advantage” (p.27). Recognizing this, social entrepreneurship designates control to a grassroots network of individuals who craft and enforce solutions and take charge of their own economic system. Importantly, this interpretation of “privatization” is still quite different from that found in neoliberal economics, where privatization often means an increase in control for corporations, not individuals.

The market principle of profit making is also permitted in social entrepreneurship. This is important because “profit making is key to investment capital” Pallotta, 2008, p.7). By allowing profit making in social entrepreneurship people will be more attracted to invest in social causes. This is evident in the rise of the new venture philanthropist organizations discussed previously. “If people could make the same return from investment capital in charity as they can in for-profit investments, charity would raise massive additional investment capital and be able to utilize profit for a good cause, instead of just making shareholders wealthier” (Pallotta, 2008, p. 7). Therefore, permitting profit making in social entrepreneurship is critical to the growth and sustainability of social business. However, social entrepreneurship is still able to transcend neoliberal ideology because it does not require or prioritize profit over social welfare.

As a market-based reform, social entrepreneurship also does not entirely reject the possibility of perpetual GNP growth; it simply aims for a more social economic growth, or growth that improves the quality of life. There is an enormous untapped market of potential in the social economy, which includes cooperatives, non-governmental organizations, and the creation of products and services that meet social needs (The Hidden Wealth of the Poor, 2005). Social entrepreneurship demonstrates the potential for growth in innovations that benefit humanity, particularly the billions of people, often referred to as the “bottom of the pyramid”, who are essentially locked out of participating in the economy. Social entrepreneurship also relates to the notion of ideas as economic goods and new ideas can promote economic development (Romer, 1992, p. 63).

The market characteristics of social entrepreneurship described above are key in transforming current development ideologies. For example, social entrepreneurship as a market-based approach is able to appeal directly to those that have been most resistant to change. The concept of social entrepreneurship, like social capital, can help give “non-economist social scientists a credible means of persuading economists of the significance of social factors in development” (Chambers, 2004, p.18). Now prevalent in many leading businesses schools, social entrepreneurship has managed to put social welfare into the curriculum and priorities of business itself; in programs that once taught only profit-maximizing techniques, classes regarding social development strategies and social impact are offered. By placing social value in business schools, social entrepreneurship has the potential to overcome the source of ideological limitations.

Already as a result of social entrepreneurship, “we have seen an explosion of diverse experiments, many of them engineered by onetime Wall Street heavies, that attempt to bring new capital- and capital-market dynamics – to the realm of social good” (A Winning Strategy to Help Millions, 2009). For example, Connie Duckworth, who made history as the first female sales and trading partner at Goldman, Sachs & Company, founded the social enterprise Arzu to provide sustainable income to Afghan women by selling their rugs (Skoll Foundation, 2008). Unlike traditional weaving businesses, Arzu weavers receive basic health care and above-market compensation for their rugs. In exchange, they must send all their children under 15 to school full time and all women in their home must attend literacy classes (Skoll Foundation, 2008). This shift in ideology, amongst people like Connie Duckworth and in the countries top-tier business schools,

should not be taken lightly because, “by defining entrepreneur in a broader way, we can change the character of capitalism radically, and solve many of the unresolved social and economic problems within the scope of the free market” (Yunus, 2006a).

Offering numerous examples of regular people using innovative ideas to restructure the world’s biggest institutions and most stubborn policies, social entrepreneurship also has the potential to inspire youth. “Many young people today feel frustrated because they cannot see any worthy challenge which excites them within the present capitalist world. [Those], particularly in rich countries will find the concept very appealing since it will give them a challenge to make a difference by using their creative talent” (Yunus, 2006a). Social entrepreneurship therefore may help youth conceptualize a meaningful purpose for their lives and empower them to enter the work force with a social mission (James, 2007).

Though social entrepreneurs do not ask outright for existing businesses to become more socially minded, social enterprises are, non-the-less, changing the standard of business. “Social entrepreneurs are raising the stakes, creating both business and social impact, and changing old-style capitalism” (A Winning Strategy that Helps Millions, 2009). Social entrepreneurship can help alter the expectations consumers place on business to be socially responsible. As consumers are increasingly given choices between social entrepreneurial businesses and traditional for-profit businesses, the latter will face stiffer competition and pressure to commit to a social mission (Vidal, 1999). Additionally, if, as Muhammad Yunus predicts, a social stock market is one day created for social enterprise in which they could be bought, sold and traded, the standard will be

raised even further as traditional businesses will have to compete for investments (Yunus, 2006b). Also, as social entrepreneurship continues to refine market mechanisms to measure social value, it may help mainstream the idea that measuring profit, or GDP, does not capture the whole value of a company or country. Therefore, social entrepreneurship will feed the progress that is already being made in measuring social value as demonstrated by the HDI and the other new types of indices discussed above.

Furthermore, in a time of high unemployment, social entrepreneurship, as market-reform, has the potential to create many jobs, even in the developed world –from researchers and developers that craft new sustainable technologies to practitioners and field officers who mobilize communities and advocate for fair trade. This is perhaps one reason why the current US government administration has given social entrepreneurship recent attention and discussed the possibility of creating a social innovations fund (Trexler, 2008).

As a market-based solution with an emphasis on social value creation, social entrepreneurs are essentially,

constructing the building blocks of a post-corporate-post capitalist civilization. They are demonstrating alternatives far more attractive and viable than socialism and the failed economic models of the former Soviet Union. The most promising alternatives center on applying the familiar principles of democratic governance and market economics to create societies that function in service to life and treat money as a facilitator, not the purpose of our economic lives (Korten, 1999, p. 2-3).

This integration of the best market principles and rejection of the most harmful signals a promising future for social entrepreneurship, at least in helping to evolve the current conception of the market.

### Social Entrepreneurship Evolving the Nonprofit Ideology

As Salamon (2002) says, there are “two seemingly contradictory impulses that form the heart of American character: a deep-seated commitment to freedom and individual initiative, and an equally fundamental realization that people live in communities and consequently have responsibilities that extend beyond themselves” (p.3). The nonprofit sector is already one manifestation of “blending these competing impulses, creating a special class of entities dedicated to mobilizing private initiative for the common good” (Salamon, 2002, p. 3-4). Social entrepreneurship is a second manifestation of this integration, perhaps a more advanced one that goes a step further to add a much-needed element of free market capitalism. Both social entrepreneurship and the nonprofit sector represent “a faith in the capacity of individual action to improve the quality of human life” (Salamon, 2002, p.3). However, social enterprise transcends nonprofit language and limitations and therefore, offers a brighter path forward to overcoming the polarization of the economy.

Related to social entrepreneurship, there have been many recent changes in the dynamics between nonprofits and business ventures and the lines between the two “have become more permeable” (Cordes & Steuerle, 2009, p.2). “Nonprofit America seems to be well along in a fundamental process of ‘reengineering’ that calls to mind the similar process that large segments of America’s business sector have undergone since the late 1980s” (Salamon, 2002, p.6). Many nonprofits have found it “advantageous to operate more like business in some respects; some for-profit businesses have adopted some nonprofit attributes; and business and nonprofits have discovered mutual benefit from



acting as partners, both in for-profit and in not-for-profit ventures” (Cordes & Steuerle, 2009, p. 2). Holly Hall of The Chronicle of Philanthropy observes, “The most successful nonprofit organizations are those that have worked hard to diversify their fundraising strategy in recent years. In some cases, this includes starting their own businesses so as not to rely purely on donor generosity” (Hall, 2008).

The cause for this increased integration of the for-profit and nonprofit sectors is debated. Some argue that there is “an organizational propensity for adaptation [which] creates a natural, dynamic process of change in the boundaries between nonprofit and for-profit sectors” (Cordes & Steuerle, 2009, p.3). Others believe that such changes are the result of “intensified demands for improved effectiveness and sustainability in light of diminishing funding from traditional sources and increased competition for these scarce resources” discussed above (Johnson, 2000). I believe the nonprofit sector is evolving in an effort to overcome the underlying ideological problems in the current economic system.

Much of the existing literature on social entrepreneurship, particularly in the United States, has focused specifically on this integration of the nonprofit and for-profit sectors. Many scholars have evaluated how the social enterprise mentality affects the nonprofit sector, the benefits and dangers of incorporating business activity into nonprofit organizations, and the legal issues that are implicated (Cordes & Steuerle, 2009; Pallotta, 2008). Some of these scholars fear that social entrepreneurship threatens to negate the work of the nonprofit sector (Trexler, 2008). Contrary to this belief that the integration of the nonprofit sector and the business sector will result in a loss of mission or a failure to

address social issues, I agree with Pallotta's alternative view (2008). What he describes – the integration of the best of free-market capitalism with social value creation – is precisely the ideology of social entrepreneurship that I believe will contribute to greater levels of impact for social development organizations.

Though the nonprofit sector in its traditional form has been a critical element in our economy, I hope that by demonstrating successful integration of economic freedom and social mission, social entrepreneurship will transform the model and structure of nonprofit organizations. This is not to say that I anticipate social entrepreneurship will replace the nonprofit sector entirely. Nor do I believe the nonprofit sector is at fault for the current perpetuation of social problems. Rather, like Pallotta (2008), I believe that the ideological limitations placed on nonprofit organizations discussed above are to blame. Therefore, I argue that the ideology of social entrepreneurship, which overcomes many of the current limitations placed on the nonprofit sector that are hindering its success, offers a better conceptualization of social development organizations. Society's social visionaries, including those who have been working tirelessly in the nonprofit sector, will finally have the ability to generate substantial impact.

There are several important ways the emergence of social entrepreneurship can overcome the assumptions found in the nonprofit ideology and evolve the nonprofit sector to a higher level of efficiency and effectiveness. For example, the emergence of social entrepreneurship helps to justify expenditures regarding administrative and fundraising costs in social development organizations. As individuals begin to conceive of nonprofits as social businesses, they may better understand that funds used to pay staff

salaries, purchase equipment, and fundraise are as vital to serving social needs as the programs themselves. It is widely believed that a good business must use incentives to attract the best talent and invest in the best infrastructure to be successful (Weil, 2008). However, as discussed above, a nonprofit organization is expected to challenge social problems without the ability to use incentives to attract and retain the best employees. As Pallotta (2008) states, “If we allow charity to compensate people according to the value they produce, we can attract more leaders of the kind the for-profit sector attracts, and we can produce greater value” (p. 7). Because the social enterprise ideology is able to pay higher salaries that attract the best and brightest employees, social entrepreneurships are better situated to achieve their missions.

The social enterprise mentality also suffers fewer constraints on its ability to utilize advertising. As Pallotta (2008) states, “The more charities are allowed to advertise, the better they can compete with consumer products for the consumer’s dollar and the more money they can raise for the needy” (p. 7). Therefore, a social enterprise has an advantage over nonprofits if the structure allows organizations to utilize advertising more freely.

Furthermore, social entrepreneurship can attract more funding than traditional nonprofits because its practicality and sustainability offer an appealing alternative. According to Scott Ring, general counsel for Bessemer Venture Partners, donors “are being more selective about the type of organization they will invest in, favoring those with the most efficient and insightful models for growth through difficult times” (Fritz, 2008). Within this changing climate new types of donors will likely emerge, maybe even

some who have never been compelled to give before. Such donors might be thought of as the “all business” variety who have been turned off by the unsustainable nature of charity in the past but now will become interested in these entrepreneurial, hybrid nonprofit organizations (Fritz, 2008). Additionally, as Reis (1999) observes, a “new group of philanthropists, much more diverse than the white, male leaders from mainstream America, who had previously dominated North American philanthropic foundations” are emerging (p.15 from Johnson, 2000, p. 3). Many of these new philanthropists are “young ‘emerging innovators’ from diverse backgrounds, whom challenge old assumptions about charitable giving” (Johnson, 2000). This group will also be more attracted to social entrepreneurship than the traditional structure.

The social business movement can also significantly improve corporate giving, which has traditionally lagged behind that of individuals, as corporations may be more attracted to these entrepreneurial strategies (GuideStar, 2009). For example, the Grameen-Danone Foods partnership is an excellent example of how social business or social entrepreneurship is compelling corporate partnerships that go beyond corporate responsibility. This model gives low-income consumers in Bangladesh access to a wide range of nutritious foods by utilizing a unique proximity business model that involves local communities and improves local economic conditions (Yunus, 2006b, p.24). Furthermore, the social enterprise Ceres, Inc. has inspired more than two dozen companies to take action on climate change and plans to persuade another twenty-five (Skoll Foundation, 2008). Their 10-point Call to Action includes an investor commitment of \$1 billion to clean energy technology (Skoll Foundation, 2008). Additionally,

companies have stepped forward to encourage social innovation. For example, Vodafone, created a Wireless Innovation Challenge that offers a \$300,000 grant to a social enterprise that identifies the best wireless related technology to address critical social issues in developing countries (O’Heffernan, 2009).

The rise of the social entrepreneurial approach will also encourage nonprofit organizations to become more sustainable by diversifying their resources and engaging in investment activities. As Pallotta states, “The more we allow charities to invest in the future instead of only the current fiscal year, the more they will be able to build the future we all want” (Pallotta, 2008, p. 7). Social enterprises provide greater promise for sustainability and even the possibility of profit generation. Therefore, they are better-protected than nonprofits during difficult times as they have more reliable sources of income.

The entrepreneurial spirit is inherently innovative and risk taking. Social entrepreneurship helps to legitimize investing in high-risk ventures that may have the potential for high social returns. "Both nonprofits and foundations have a responsibility to seek ways to use their resources most effectively," said Diana Aviv, president and CEO of Independent Sector (Independent Sector, 2004). Some have used this mentality of responsibility to discourage nonprofit organizations from taking risks with the donations they are given by the public. However, this has prohibited the sector from developing innovations and evolving to a higher level of efficiency. Social entrepreneurship transcends this belief by recognizing that sometimes the most effective way to use resources is to take risks. As discussed above, organizations like New Cycle Capital and

the Mercy Corps' Phoenix Fund have already emerged to specifically seek opportunities to invest in "high-risk, high-reward" endeavors (The Phoenix Fund, 2009). Undoubtedly, risk taking may result in some mistakes, but "the more mistakes a charity makes in good faith, the faster it will learn and the quicker it will be able to solve complex problems" (Pallotta, 2008, p.7). Thus, social entrepreneurship will allow the nonprofit sector to pursue innovative strategies once deemed irresponsible and will evolve social development efforts to greater impact.

Each of these examples demonstrates how social entrepreneurship encourages important changes in both the nonprofit and corporate worlds. However, social enterprise makes its greatest contribution "beyond developing more effective ways to work with nonprofit organizations, by ending the counterproductive divide between public benefit and corporate identity" (Trexler, 2008). Because social entrepreneurship is still a relatively new concept, it is difficult to make predictions about the future impact it may or may not have on the nonprofit sector, and on social development in general. However, as discussed above, social entrepreneurship is already beginning to change the nonprofit sector and business. As more social enterprises emerge and challenge the existing ideological limitations placed on nonprofit organizations and corporations, I expect greater and more sustainable progress will be achieved in social development.

## CHAPTER V

### CHALLENGES, RECOMMENDATIONS, AND CONCLUSIONS

While there are many positive elements of social entrepreneurship, it is by no means flawless. From an international development perspective, there are many potential shortfalls of social entrepreneurship that could inhibit its progress. While it is important and exciting to have more and more people interested in affecting positive change in the world, history has shown that even good intentions can have negative implications. As Nermeen Shaikh (2007) states,

The task of the dispensers of goodwill is complicated and fraught, and history teaches us the extent of the damage done in the name of good. And if one must act, if one must intervene, one should at least have the self-reflexivity to question, the capacity for auto-critique, and most of all, the willingness to learn from those who are the recipients of one's benevolence, so that whatever occurs in the name of progress, whatever befalls the recipients of benevolent intervention as unintended consequence or collateral damage, may in some small measure, be brought to light" (p.83).

Therefore, the success of social entrepreneurship is largely dependent upon the incorporation of the best practices in social development including community mobilization, gender mainstreaming, and participatory methodologies. In this next section, I will make recommendations to help ensure that the best practices in international development are incorporated into social entrepreneurship.

#### Challenges and Recommendations

##### *Ethnocentrism and Cultural Relativism*

“Any approach has behind it a set of values, beliefs, and attitudes. If an approach has a transformative agenda, it is in a particular direction, towards a change; approaches to development are not neutral” (Rowlands, 2003, p. 2 from Eade). In light of this reality,

much of social development has taken an economic ethnocentric approach to development – where even the term development itself is highly ethnocentric, denoting growth, inevitability, and progress” often identified by a few Western cultures and exported elsewhere (Bodley, 1990, p. 114 from Robbins, 2005, p. 273). The assumption is that everyone lives according to the terms of the market and that eventually, all peoples and societies inevitably will ‘modernize’ via the “right” policies for development. However, this assumption begs questions about what is right and “what is good, and what sorts of change matter” (Chambers, 2004, p.iii). As Chambers (2004) notes, answers to these questions have very different meanings and therefore, different interpretations of development “both reflect and influence what is done” (p. iii). In other words, the quality of a project, and its results, can be deeply affected by the underlying values and agendas present in the observer.

As social entrepreneurship continues to evolve and becomes more defined, it is increasingly important that it is aware of its own deepest assumptions and underlying values. To be successful, it should strive to define development in the most inclusive and effective sense possible. Amartya Sen’s definition of ‘development as freedom’ represents an inclusive notion of human development that could become the standard for social entrepreneurship. Sen (2000) emphasizes development as a process that removes major sources of “unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over-activity of repressive states” (Sen, 2000, p. 3). Additionally, the United Nations Human Development Reports also have a positive grasp of development stating, “Human



development is about putting people at the centre of development. It is about people realizing their potential, increasing their choices and enjoying the freedom to lead lives they value” (HDR, 2009).

Social entrepreneurship will likely face significant challenges in its attempt to craft solutions that reflect the needs and desires of those being served. Therefore, social entrepreneurs must ensure they are culturally sensitive and remain aware of the possible unintended results of their efforts. Cultural relativism is a concept commonly understood by anthropologists, sociologists, and development practitioners to denote the limitations of understanding a culture outside one’s own. However, it may be a less familiar concept to a new wave of social entrepreneurs. Because there are currently a large number of business schools training professional social entrepreneurs, it is important that programs on social entrepreneurship include an understanding of how to be culturally relative when conducting international development projects where the stakes are high. One mechanism for this is to utilize participatory methodologies prior to beginning a project and throughout the entire design, monitoring and evaluation process (Chambers, 2004). These methods can be used to mobilize local communities to identify their true needs and desires while mitigating the possibility of unintended consequences.

### *Local Participation and Empowerment*

Development professionals tend to agree that the empowerment of local individuals over their own fate is amongst the best practices in the field. As its potential suggests, social entrepreneurship should contribute to the increased empowerment of local citizens. An element of this ‘localist’ mentality is the importance of protecting and

encouraging local business. “In 1400, most business enterprises were small, generally family-organized institutions. Today, we live in an era of multinational corporations, many whose wealth exceeds that of most countries” (Robbins, 2005, p.67). Certainly, the dehumanization of the culture of neoliberal economic globalization is partly due to this degradation of the local ownership of capital. Social entrepreneurship should strive to promote local and community ownership whenever possible.

Another part of local empowerment requires local leaders to drive existing social enterprises and to become social entrepreneurs or innovators themselves. Foundations and venture philanthropy organizations should be cautious to not only attract and fund Western entrepreneurs: they should also include a sizable number of non-Western entrepreneurs in their portfolios. Furthermore, even social entrepreneurs operating in non-native countries should encourage community and local ownership of their projects. The Amazon Conservation Team is a social enterprise utilizing these strategies. It “currently partners with 25 local tribes in Brazil, Columbia, and Suriname to protect the rainforest by using sophisticated mapping technology and by establishing legal claims” (Skoll Foundation, 2008).

### *Gender Equity and Women's Empowerment*

There is evidence to suggest that the traditional ‘culture of capitalism’ is in part responsible for the marginalization of women. For example, according to Karen Sacks, “the development of nation-states in the culture of capitalism undermined [African] women’s status by dismantling the larger, family-based institutions on which “sister” relations rested, turning women into dependent wives” (Robbins, 2005, p. 345). This

claim is supported by Ester Boserup (1970), who noted that the “economic and social policies of the colonizers undercut the traditional role of women as farmers, merchants, and participants in the political process of families by undermining the power of extended family or clans, taking away women’s rights to land, and relegating women to the household or low-paying wage labor” (Robbins, 2005, p. 345). Therefore, it is increasingly important for social entrepreneurship to utilize social capital building strategies, as opposed to those that promote ethnocentric notions of nuclear families that destroy social structures and contribute to gender inequality.

Additionally, social entrepreneurs should use gender mainstreaming, or should institutionalize and integrate gender concerns into the mainstream of their development methods and approaches (Tiessen, 2007, p. 13). They should follow the United Nations Economic and Social Council’s (UNESCO) recommendations “to assess the implications for women and men of any planned action, including legislation, policies or programs, in all areas at all levels” (Tiessen, 2007, p.12). In addition, to promote gender equity and sensitivity in their programs and actions, social enterprises should also encourage the participation of women as social entrepreneurs and innovators themselves (Scott, 1991). It is commonly believed that women are “often more concerned about their children’s welfare” and therefore, the empowerment of women can result in greater benefits for the entire family (Kapur, 1998, p. 45; Eade, 2003; Yunus, 1999). This strategy is utilized by microfinance organizations, as the majority of loan recipients are women. Additionally, the Afghan Institute for Learning (AIL) is another example of a social entrepreneurship that is excelling in addressing women’s needs; they have built eighteen Women’s

Learning Centers to provide services to more than 350,000 Afghan women in children each year (Skoll Foundation, 2008).

*Preserve Subsistence and Sustainability*

Removing people from their land or destroying the small-scale industries that allowed them to support themselves can also be an unintended consequence of laissez-faire economic policies that social entrepreneurship must not adopt. I have mentioned the potential for social entrepreneurship to create wage labor jobs. However, in creating such jobs, social entrepreneurship must be cautious not to jeopardize existing subsistent and sustainable elements of local life. There have been many cases where autonomous workers have been transformed into dependent wage laborers, who are forced into urban centers that sometimes offer a lower quality of life. Social entrepreneurs should avoid such disempowerment of individuals and promote autonomy and self-sufficiency in local communities (Robbins, 2005, p. 55) Eric Wolf (1982) said, “For capitalism to exist, wealth or money must be able to purchase labor power. But as long as people have access to the means of production—land, raw materials, tools—there is no reason for them to sell their labor” (Robbins, 2005, p. 85). Social entrepreneurship must transcend this belief and demonstrate that having some subsistence within an economy is more sustainable than creating populations whose sole means of support is the sale of their own labor. Additionally, social entrepreneurship must not simply make cheaper products, services, and systems that encourage people to consume more and more commodities. In this form, it is possible that social entrepreneurship could send a mixed message about development. As Graeber (2007) states:

One the one hand, they set out to teach the ‘natives’ proper work discipline, and try to get them involved with buying and selling products on the market, so as to better their material lot. At the same time, they explain to them that ultimately, material things are unimportant, and lecture on the value of the higher things, such as selfless devotion to others (p. 3).

Therefore, social entrepreneurs face the challenge of reconciling conflicting interests and values and facilitating a balance between market and social forces. This challenge is one of the greatest faced by social entrepreneurship because it will prove immensely difficult to overcome the negative implications of the market. However, remaining self-reflexive and fully evaluating the social impact of their work will help social entrepreneurs in their undertakings.

### *Measuring Social Impact*

The field of social entrepreneurship and social development in general “has yet to establish a common understanding of ‘social impact’ – what it is or how to measure it. Though there are many tools emerging including the HDI and GPI discussed earlier, measures of impact often vary from funder to funder, and organization to organization” (The Rockefeller Foundation, 2003, p.2). This is a significant challenge for social entrepreneurship because it requires a standard, non-monetary method for measuring social value (Dees, 2007, p.28). In business, “we have established generally accepted principles of accounting and an international legal infrastructure to help manage the reporting of financial returns. A comparable norm for social impact accounting does not yet exist” (Clark et. al., 2004, p.3).

A tool that can measure “the portion of the total outcome that happened as a result of the activity of the venture, above and beyond what would have happened anyway” is

essential for assuring that social entrepreneurs achieve their social goals (Clark et. al, 2004, p. 7). Such a tool, that is both feasible and credible, has yet to be developed and thus, “social enterprise as a field finds itself burdened by significant misalignments in goals, methodologies, and strategy” (The Rockefeller Foundation, 2003, p. 4). Part of this problem relates to the “significant diversity” that exists within the field of social entrepreneurship –from youth development to economic development to environmental protection and education (The Rockefeller Foundation, 2003, p. 15). However, the bulk of the problem lies in the reality that value cannot always be measured, and arguably should not always be quantified. As discussed earlier, activities once associated with family life and given freely, such as childcare, food preparation, and education must be converted into monetary activities under the current neoliberal economic culture. Social entrepreneurship must do more than commercialize social values; it must also value things that do not easily convert into dollars. What is really at stake “in any market economy is precisely the ability to convert “value” into “values” (Graeber, 2007, p.4). This issue has no easy solution and will undoubtedly remain a challenge for social entrepreneurs well into the future. However, there has been a movement towards greater “social accountability” or an “increasing interest in more tangible accountability for the social impact created for each invested or granted dollar” that will likely continue to progress (Clark et. al., 2004, p. 3).

### *Elitism*

Some current definitions of social entrepreneurship highlight the individual characteristics of a social entrepreneur versus the structure of a social enterprise. This

interpretation is a valuable component of social entrepreneurship in its ability to empower individual citizens to be the agents and drivers of change. However, an over-emphasis on individual characteristics may have a reverse effect if their characteristics are viewed as rare and difficult to attain (CASE: Social Entrepreneurs “a rare breed”, 2008). This is particularly apparent in the Stanford Social Innovation Review’s publication, *Social Entrepreneurship: The Case for Definition* (Martin & Osberg, 2007). By calling social entrepreneurs “extraordinary” and “brilliant” and highlighting multimillionaires-turned-social entrepreneurs, this publication makes the sector seem elitist instead of inclusive. Additionally, the word “hero” can also be found in the discourse of social entrepreneurship (PBS, 2008). This carries with it an underlying assumption that the developing world is in need of ‘saving’ (PBS, 2009). I suggest that social entrepreneurship move away from such discourse and emphasize the collective talents of individuals to mobilize communities.

### *The Need for a Supportive Infrastructure*

Though best practices have not yet been standardized, “the field has developed a rich set of conceptual frameworks, analytical tools and management strategies over the past few years” (The Rockefeller Foundation, 2003, p. 4; 14). Such developments should be expanded, and the information that does exist should be publicized, as should a list of case studies on social impact assessment (The Rockefeller Foundation, 2003, p. 16). “Today we have very sophisticated financial markets, business schools, and many supportive associations for business organizations” (Dees, 2007, p.28). Social

entrepreneurs are in need of similar institutions to supply “appropriate funding, talent, knowledge, and social capital” (Dees, 2007, p.28).

What ultimately matters in development “is the nature of the lives people can or cannot lead”, the field of social entrepreneurship as a new development paradigm, must always keep this truth in mind (Sen from Kapur, 1998, p. 40). Social entrepreneurs have a tremendous amount to learn from development professionals who have spent time in the field observing the impact of different social development strategies. Unfortunately, development professionals are still largely unfamiliar with social entrepreneurship and have yet to take on a formative role. I hope this thesis sheds light on the importance of these two groups working together in the future.

### Conclusions

Economic globalization, both vilified and praised, presents an extraordinary impasse for social development: on one hand, it has raised the potential of what is possible by generating great improvements in a few nations and arenas, on the other hand, it has failed to live up to its social promise. The fact is that social problems persist despite decades of private, government, and nonprofit interventions. What is worse, in certain cases, “what is being done, is being done at the expense of many” (Kapur, 1998, p. 42).

I agree with Muhammad Yunus who writes that many of the problems in the world remain unresolved because we continue to interpret capitalism too narrowly (2006b, p.1). Social and economic institutions have been separated and compartmentalized to a degree where neither is able to integrate the positive aspects of



the other. This narrow interpretation is undermining “the fluidity of movement across boarders of knowledge” that is key to resolving social problems (Rosow, 2003, p.2).

Furthermore, under the current structure, neither the nonprofit nor for-profit sectors capture the dual nature of the human being. As Muhammad Yunus said in his Nobel Lecture in 2006, “Human beings are a wonderful creation embodied with limitless human qualities and capabilities. Our theoretical constructs should make room for the blossoming of those qualities, not assume them away”. We are not one-dimensional profit seeking beings nor are we immune to the motivations of self-interest: “Very few of our actions could be said to be motivated by anything so simple as untrammelled greed or utterly selfless generosity”, yet our system has mostly been conceptualized as such (Graeber, 2007, p. 2).

In light of these failures, there are a “multitude of changes to be made –in policies, in economic institutions, in the rules of the game, and in mindsets –that hold out the promise of helping make globalization work better, especially for developing countries” (Stiglitz, 2007, p. xi). Evidence suggests the time has come to break out of past patterns: attempts to preserve social and ecological stability through old approaches to development will increase instability and change is now necessary (Warburton, 2000, p.3). There is a need for a solution that addresses the underlying limitations in the ideological conception of the market. A different paradigm is necessary for a “social sustainable globalization process, a paradigm that would strike a balance between the economy, people, nature, culture, the individual and society” (Nieuwenhuys, 2006, p.5). I believe social entrepreneurship is the beginning of that paradigm.

Societies across the globe are now beginning to look for new means to address human and environmental concerns, yet preserve the more positive elements of economic growth. New movements like social entrepreneurship are proving that a better system is possible. While social entrepreneurship is not a panacea, it is an exploration that holds great potential as a viable and practical mechanism towards realizing some much-needed changes to the current structure and priorities of the market. It blurs traditional private, public, and nonprofit boundaries to promote collaboration between sectors to develop innovative and resourceful approaches for addressing social problems and catalyzing social change.

Social entrepreneurship challenges one-dimensional thinking and encapsulates the notion of ‘triple bottom line’ development, which attempts to bring together economic, social and environmental welfare. Social entrepreneurship appeals to the underlying human goodness and invites individuals to take on a new challenge, one that is not driven by economic self-interest, but driven by the desire to better our world. It uses human talents to create products, technologies, and services that are designed for the implicit purpose of improving the lives of the most disadvantaged groups, the groups that have been left out of the current neoliberal order.

Social entrepreneurs are undoubtedly “swimming against a current of cultural assumptions and biases” which threaten their progress (Dees, 2007, p.28). There are no quick and flawless solutions but there are alternative forms of effective market economies, forms that have not yet been fully explored. Social entrepreneurship is one such alternative. It is possible that social entrepreneurship may not work as well as

proponents expect it to. However, I disagree with critics who contest “Predictions of a shift toward socially conscious capitalism...have no basis in economic theory...they are wishful thinking, pure and simple, and a betrayal of the rigorous strategic analysis that social enterprise says it represents” (Trexler, 2008). This is precisely the ideology that has kept society so constrained. Instead, I agree with William Harman, who states, “Because of the interconnectedness of all minds, affirming a positive vision may be about the most sophisticated action any one of us can take” (Korten, 1998, p.1).

Though imperfect, social entrepreneurship is worthy of ambitious praise because, at the very least, social entrepreneurship is a social movement—a sign of “an activist democracy, in which well-informed citizens know their rights and feel empowered to take matters into their own hands” (Kapur, 1998, p.44). Social entrepreneurship, therefore, signals the emergence of a more “outward looking culture, receptive to new ways of understanding the world, and prone to bouts of self-reinvention” (Kapur, 1998, p.44). Even if the concept of social entrepreneurship itself cannot dramatically change the established structures of the for-profit and nonprofit sectors, it is valuable in its ability to bring us one step closer to realizing the ideal of a genuinely social capitalism.

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